

VZCZCXR07077  
RR RUEHMA RUEHPA  
DE RUEHJL #0018/01 0081703  
ZNR UUUUU ZZH  
R 081703Z JAN 08  
FM AMEMBASSY BANJUL  
TO RUEHC/SECSTATE WASHDC 7980  
INFO RUEHLMC/MILLENNIUM CHALLENGE CORP  
RUEHZK/ECOWAS COLLECTIVE  
RUEATRS/DEPT OF TREASURY WASHDC  
RUCPDOC/DEPT OF COMMERCE WASHDC

UNCLAS SECTION 01 OF 02 BANJUL 000018

SIPDIS

SENSITIVE  
SIPDIS

STATE PLEASE PASS TO EXIMBANK, OPIC, USTDA

E.O. 12958: N/A

TAGS: [ECON](#) [FAID](#) [EFIN](#) [ETRD](#) [PGOV](#) [KMCA](#) [IMF](#) [GA](#)  
SUBJECT: THE GAMBIA'S 2008 ECONOMIC OUTLOOK

BANJUL 00000018 001.2 OF 002

REFTEL(S): 07 BANJUL 614 AND PREVIOUS  
07 BANJUL 574

-----  
SUMMARY  
-----

**¶11.** (U) On December 20, 2007, the World Bank and International Monetary Fund (IMF) issued a press release announcing that The Gambia has reached completion point under the Enhanced Heavily Indebted Poor Countries (HIPC) Initiative, and is now eligible for debt relief under HIPC and the Multilateral Debt Relief Initiative (MDRI). The debt relief for which The Gambia now qualifies was already incorporated into the 2008 budget presented to the National Assembly on December 14, 2007. However, the prospects for sustained fiscal gains may not be as bright as the GOTG wishes to project, and prudent management will be necessary in the coming years. END  
SUMMARY

-----  
HIPC COMPLETION POINT REACHED  
-----

**¶12.** (U) A December 20, 2007, World Bank/IMF press release announced that The Gambia had reached completion point under the Enhanced HIPC Initiative. The debt relief equals just over USD 66 million in net present value (NPV), reducing The Gambia's debt by 27 percent. Total assistance under HIPC is estimated at USD 140 million. Under the MDRI, the country is now also eligible for additional debt relief from the IMF, the World Bank's International Development Association, and African Development Fund. Total debt service savings under the MDRI will amount to approximately USD 374 million in nominal terms over the next 43 years. Thus, The Gambia is expected to receive the equivalent of USD 514 million in nominal debt relief under the HIPC and MDRI initiatives on both principal and interest payments.

-----  
2008 BUDGET PRESENTED  
-----

**¶13.** (U) On December 14, 2007, Secretary of State (Minister) for Finance and Economic Affairs, Musa Bala Gaye, formally presented the 2008 budget to the National Assembly. He reiterated the draft budget figures (ref A) that anticipated the debt relief resulting from HIPC Completion Point, and noted that 46 percent of the budget would go toward poverty reduction measures. The minister also elaborated on the performance of key economic sectors in the coming year, and reflected upon the impact of the strengthened currency, the dalasi. He interpreted the rapid, significant appreciation of

the dalasi as a correction of its true value after a rapid decline a few years ago. The minister largely attributed this to improved fiscal policy, remittances, and foreign direct investment, and maintained that the economic rebound would be stable in the medium term. He further noted the appreciation of the dalasi was due to a reduced demand for foreign exchange to finance The Gambia's external debt because of HIPC and MDRI debt relief. On the matter of the startlingly rapid pace of the appreciation against most foreign currencies, he asserted that banks had behaved inappropriately, resulting in the jump.

-----  
TIGHTENED FISCAL CONTROLS...  
-----

**¶4.** (U) Bala Gaye noted that the January 2007 introduction of the Integrated Financial Management Information System had led to improved financial discipline. He also revealed that the backlog of GOTG accounts from 2002 to 2006 had been prepared and submitted to the auditor, and would be followed by a discussion by the Public Accounts Committee. Other improvements for the new year include a civil service reform project carried out with the World Bank and an action plan for aid effectiveness. The minister noted that the banking sector was on the upswing, the Central Bank was performing well, and the 2007 balance of payments was USD 2.5 million less than in 2006. Bala Gaye also stressed the need for a "massive injection" of donor funds to fund the current Poverty Reduction Strategy Paper, which would be discussed at the postponed Donors' Round Table Conference to be held in London in February.

-----  
BUT SOME NEGATIVE RESULTS  
-----

**¶5.** (U) Though the domestic economy has grown by an average of 6.4 percent from 2003 to 2006, and grew 7 percent in 2007, some areas did not see improvement. 2007 figures for the agricultural and

BANJUL 00000018 002.2 OF 002

construction sectors are down from 2006. Inflation grew from 1.1 percent in 2006 to 6 percent in 2007, while inflation in food prices was 0.7 percent in 2006 and 8.3 percent in 2007.

-----  
TOURISM ON THE RISE  
-----

**¶6.** (U) Bala Gaye cited major activity in the crucial tourism sector, and touted the government's continuous development of the sector. Highlighting a ten percent growth in 2007 due to higher tourist numbers and the construction of new hotels, the minister noted that the 2006-2007 winter tourism season saw 140,554 tourist arrivals, a 19.5 percent increase on the previous season. The projection for the current 2007-2008 season is 148, 674, up 5.8 percent. Despite the fact that European package tour operators tend to keep their profits at home, The Gambia profited by 1.2 billion dalasis (USD 52.2 million) from the 2006-2007 season thanks to expenditures on food, beverages, transportation, and other out-of-pocket expenses. He noted that this June will bring the ninth "Roots" festival, which should result in further increases in the tourism trade.

-----  
REACTIONS TO BUDGET SPEECH  
-----

**¶7.** (U) National Assembly member Sidia Jatta, a vocal opposition member, questioned the minister's report on the robust economy when average people are suffering from the high cost of living and low wages and pensions. National Assembly members also queried the sustainability of an economy that relies largely upon its tax base, stressing the need for diversification. Members also underscored the lack of an increase for civil service wages, which were subsequently raised by 20 percent in a New Year's Day announcement by President Jammeh.

COMMENT: DEBT RELIEF IS NOT THE END

---

¶ 8. (SBU) While we favorably view The Gambia's attainment of HIPC Completion Point and its subsequent debt relief measures, we remain wary of the viability of their lasting effects. As IMF reps previously cautioned donors (ref B), the GOTG could easily incur future debt within a few years. Since, for example, the IMF informed donors of large, unreported security expenditures in 2007, the GOTG's adherence to their stated 2008 fiscal policy remains in doubt. The rising cost of living for average Gambians is also problematic, and puzzling given the glowing economic outlook heralded by the Finance Minister. Tight and transparent financial management which benefits its citizens and the full disclosure of grants, loans, and cancelled debt are necessary for The Gambia's future economic stability and success. We are also uncertain how the announced raise for the civil service (which is severely underpaid, contributing to corruption) will impact the budget. END COMMENT

BACHMAN